CITY OF BOULDER
CITY COUNCIL AGENDA ITEM

MEETING DATE: August 20, 2019

AGENDA TITLE

Second reading, public hearing and consideration of a motion to adopt (on September 3, 2019) Ordinance 8344 submitting to the registered electors of the City of Boulder at the Municipal Coordinated Election to be held on Tuesday, November 5, 2019, the question of authorizing the City Council to increase City of Boulder debt by an amount not to exceed $10,000,000, with a maximum repayment cost of not to exceed $15,000,000, without raising taxes, to provide for a housing assistance program that will include permanently affordable deed restrictions and make loans to middle-income households to purchase homes sold in Boulder; and setting forth the ballot title and other election procedures and setting forth related details.

PRESENTERS

Jane S. Brautigam, City Manager
Tom Carr, City Attorney
David Gehr, Chief Deputy City Attorney
Cheryl Pattelli, Chief Finance Officer
Bob Eichem, Chief Financial Advisor
Kurt Firnhaber, Director of Housing and Human Services
Jay Sugnet, Senior Housing Planner

EXECUTIVE SUMMARY

City Council prioritized the Middle-Income Down Payment Assistance pilot project at the January 2018 retreat. This decision was based on work that was done to address the loss of middle-income households in Boulder, as documented in the Middle Income Housing Strategy and adopted by council in fall 2016. In response to this trend, Council Members Weaver and Yates crafted a white paper describing a potential down payment assistance pilot titled *A Shared Equity Model for Middle-Income Affordable Housing Home Ownership in Boulder*. Staff prepared a memo to expand upon this white paper with additional background research and drafted a clear problem or "why" statement and a purpose statement that was discussed by council on February 19, 2019. On July 23, 2019 council directed staff to prepare ballot measure language to authorize the city to borrow money (without raising taxes) to fund the pilot.

To comply with the Taxpayer Bill of Rights in the state constitution (TABOR) requirements, voters must approve any debt amounts to be paid back over multiple years, and the estimated total debt service to be paid during the time the borrowed money would be outstanding. The borrowing could be done by using bonds, a private placement with a financial institution (has all of the attributes of a bond but is issued differently), or a line of credit. All methods can be done using a competitive process.

STAFF RECOMMENDATION

Suggested Motion Language

Staff requests council consideration of this matter and action in the form of the following motion:

Motion to adopt Ordinance 8344 submitting to the registered electors of the City of Boulder at the Municipal Coordinated Election to be held on Tuesday, November 5, 2019, the question of authorizing the City Council to increase City of Boulder debt by an amount not to exceed $10,000,000, with a maximum repayment cost of not to exceed $15,000,000, without raising taxes, to provide for a housing assistance program that will include permanently affordable deed restrictions and make loans to middle-income households to purchase homes sold in Boulder; and setting forth the ballot title and other election procedures and setting forth related details.

COMMUNITY SUSTAINABILITY ASSESSMENTS AND IMPACTS

- Economic – If passed, this program will provide another option for members of middle-income households to purchase homes in Boulder. Given that it is anticipated that such homes will be deed restricted with some form of affordability covenant, the homes will continue to be affordable to middle-income households into the future. Future buyers of the deed restricted home will likely need city assistance similar to the first buyer to afford the home.

- Environmental – One of the objectives of the middle-income housing strategy is to help make it more affordable for people who live and work in Boulder. This program will provide for opportunities for workforce housing and potentially reduce commuting into the city.

- Social – This program will help implement the city's middle-income housing strategy. It will also help foster the community objective of making Boulder a welcoming and inclusive community.

IMPACTS

- Fiscal – If passed, this ballot measure will allow the city to issue debt. The funds from the debt issued will be loaned to middle-income home purchasers. Ultimately, the city debt will be re-payed when the homeowner refinances or sells the property. Given that payback will depend on when a person sells or refinances the debt, the city will need to develop a budget plan to repay the debt for years when the revenue may be less than that year's debt payment.

  Down payment assistance is likely necessary for subsequent purchasers of the deed restricted homes that are placed in the middle-income program, a budget plan for revenues for this program will need to be developed in the future.

- Staff time – The staff time needed to complete the background work for the ballot item is included within the departmental work plans.

BACKGROUND

"Why" Statement

Boulder is doing well building and preserving housing for low- and moderate-income households (30-60 percent of Area Median Income (AMI)). The city currently has seven- and one-half percent of its housing stock as permanently affordable and recently increased the goal from 10 to 15 percent. However, it is increasingly difficult for middle-income households (up to 120 percent of AMI) to purchase a home in Boulder. This is a result of housing prices outpacing income growth for many years, leaving many middle-income households priced out of home ownership in Boulder.

Purpose Statement

Create a program to assist middle-income Boulder workers or residents to purchase a home. The goal is to preserve economic diversity in the city and potentially reduce commuting into Boulder.

Pilot Outline

The city will issue bonds or draw upon a line of credit to provide down payment assistance to moderate- and middle-income home buyers to purchase a home. In exchange, the homeowner agrees to make that home permanently affordable through a deed restriction. For example, the income-and asset-qualified purchaser locates a home to buy which is below the median price for that type of housing. The buyers' have a down-payment of five percent ($30,000) but can only qualify for a loan from a commercial lender for 72 percent ($432,000) of a $600,000 purchase price. This leaves the buyers with a gap of 23 percent ($138,000). Under the proposed pilot, the city receives their application, determines if they are income- and asset-qualified and that the purchase price is below the median. The city borrows money to fund the second mortgage for 23 percent of the home value ($138,000). The advantage for the homebuyer is that there are no monthly payments on the second loan for the first 10 years, which reduces their monthly housing costs significantly.

In this example, the down payment arrangement continues until the home is sold or 10 years (whichever is earlier). At that time, the homeowner pays the city the amount of the second loan ($138,000) plus interest. The city's financial position is restored, and the borrowed money is used to pay the city's bond or line of credit. The home with the deed restriction remains permanently affordable and is sold through the city's homeownership program to another eligible moderate to middle-income homebuyer with a maximum income of 120 percent AMI or less.

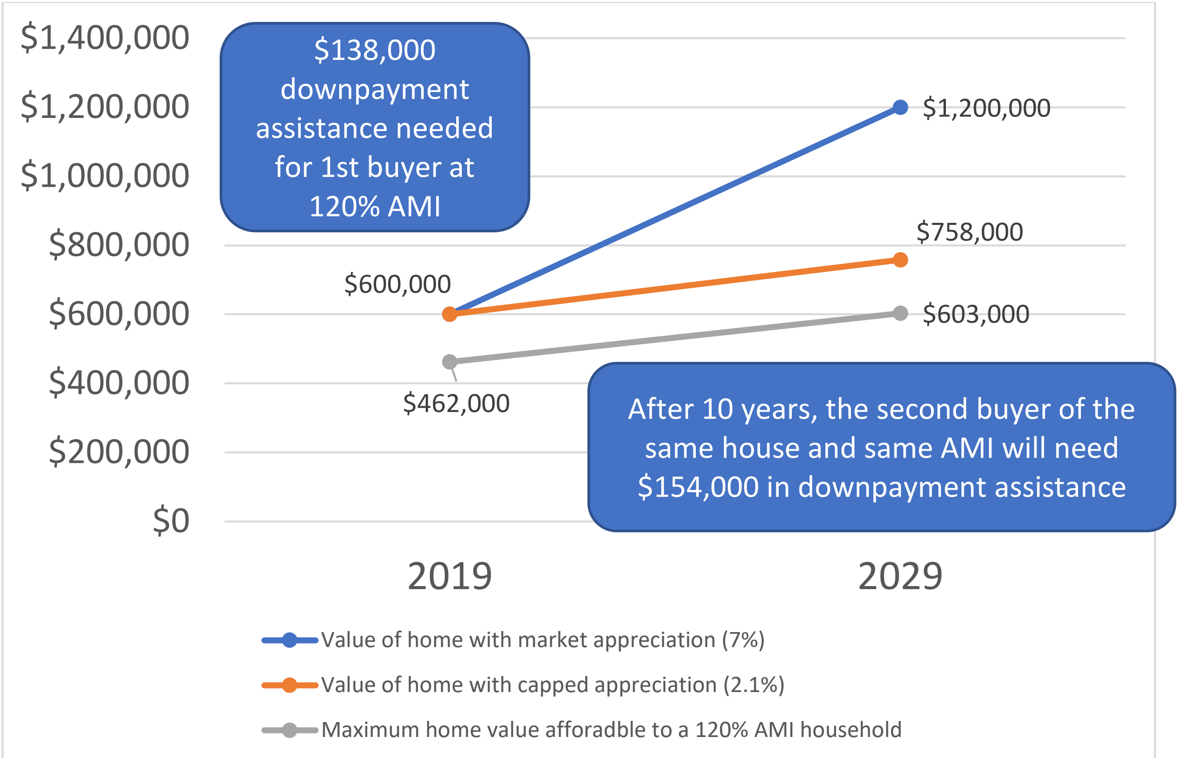
Council discussed this program at a study session on July 23, 2019. The consensus of the council was to further consider a ballot measure.

ANALYSIS

If approved by the voters, this ballot measure allows the city to borrow a certain amount of money to be paid back over time. To comply with the TABOR requirements voters must approve any debt amounts to be paid back over multiple years, and the estimated total debt service to be paid during the time the borrowed money would be outstanding. The borrowing could be done by using bonds, a private placement with a financial institution (has all of the attributes of a bond but is issued differently), or a line of credit. All methods can be done using a competitive process.

On July 23, council expressed a preference to use a line of credit to reduce overall borrowing costs and to provide the flexibility to provide assistance based on demand. Council also stated that an annual two percent appreciation rate for the permanently affordable middle-income homes was most appropriate as a starting point for the pilot. This lower appreciation rate makes the home more affordable to middle-income households, but most subsequent middle-income buyers will not be able to purchase that home without future city subsidy unless they have significant savings or help from parents. The chart below shows how the affordability gap will remain in perpetuity.

Figure 1. Resale Scenario Using AMI Method (2.1%)



There is a potential risk that program participants may not be able to refinance (or repay using another tool) the loan at year 10 when the balloon payment is due. Staff calculated that principal and interest payments would increase 20 percent by refinancing, assuming the same interest rate. Some households may have higher incomes after 10 years, but not all will be in that situation. Similarly, after 10 years the owner of the home may not be able to find a household earning 120 percent AMI to purchase the home. A future household earning 120 percent of the AMI would likely still require the aid of this down payment assistance program, which would only be available if the $10 million has not been allocated or another similar ballot initiative has been passed by voters in the future. As a result of these two factors, council requested that the staff consider a hardship circumstance, so we are not forcing people into foreclosure or to stay in the home. There would need to be enough funds for the city to purchase the home and resell it to another middle-income household in those instances. Although this process works well for low and moderate affordable homes, the affordability gap remains for middle-income homes and the city may also have difficulty selling the homes without a loss.

Another potential significant risk is interest rates. Higher interest rates, compared to the current low rates of the recent past, will increase borrowing costs for the city and present challenges refinancing for the homeowner as described above. Using the line of credit (and borrowing only as needed) will help to reduce the risk to the city, but it will not protect the homeowner from a balloon payment due in year 10. Again, some form of city assistance would likely be required.

Staff proposes that the maximum loan amount in the ballot measure be $10 million. Assuming a five percent interest rate, the assumed maximum payback will be $15 million. Below are two different scenarios for a $10M borrowing, 10 years at a five percent interest rate. The first scenario shows cash flows if the city borrowed all $10M up front (which the city would not want to do because of added interest cost and basis point fees for unused portion). The second scenario shows if the city lent out $1 million per year for 10 years.

In addition to payments for principal and interest, the city may have extra fees related to money that is not borrowed but available from the line of credit. The tables show the amount of cash flows that are needed prior to collecting money from homeowners in year 10.

Figure 2. Structure and Term Comparison

Assumes 5% Interest Rate for all Scenarios

	Scenario 1: $10 Million Draw; 10 Year Term & Bullet Maturity	**Scenario 2: $1 Million Draws over 10 Years with 10 Year Term per Draw**
Bonding Sources Summary		
Par Amount	$10,000,000	$10,000,000
Total Sources	$10,000,000	$10,000,000
Bonding Uses Summary		
Project Fund	$10,000,000	$10,000,000
Total Uses	$10,000,000	$10,000,000
	-	-
Financing Statistics		
Dated Date	12/1/2019	12/1/2019
Total Debt Service	$15,000,000	$15,000,000
Maximum Annual Debt Service	$10,500,000	$1,500,000
Interest Rate	5.000%	5.000%
Final Maturity	12/1/2029	12/1/2038
Debt Service Cash Flows		

Year	Scenario 1 Debt Service	Scenario 2 Debt Service
2020	500,000	50,000
2021	500,000	100,000
2022	500,000	150,000
2023	500,000	200,000
2024	500,000	250,000
2025	500,000	300,000
2026	500,000	350,000
2027	500,000	400,000
2028	500,000	450,000
2029	10,500,000	1,500,000
2030		1,450,000
2031		1,400,000
2032		1,350,000
2033		1,300,000
2034		1,250,000
2035		1,200,000
2036		1,150,000
2037		1,100,000
2038		1,050,000
	$15,000,000	**$15,000,000**

NEXT STEPS

If the proposed ordinance is acceptable to the council at the August 20, 2019 meeting, staff requests that the adoption of this ordinance be continued to September 3, 2019 so that all ballot issues may be adopted on the same date.

If it is amended at second reading, the final reading will occur on September 3, 2019.

ATTACHMENTS

A – Proposed Ordinance 8344

ORDINANCE 8344

AN ORDINANCE SUBMITTING TO THE REGISTERED ELECTORS OF THE CITY OF BOULDER AT THE MUNICIPAL COORDINATED ELECTION TO BE HELD ON TUESDAY, NOVEMBER 5, 2019, THE QUESTION OF AUTHORIZING THE CITY COUNCIL TO INCREASE CITY OF BOULDER DEBT BY AN AMOUNT NOT TO EXCEED $10,000,000, WITH A MAXIMUM REPAYMENT COST OF NOT TO EXCEED $15,000,000, WITHOUT RAISING TAXES, TO PROVIDE FOR A HOUSING ASSISTANCE PROGRAM THAT WILL INCLUDE PERMANENTLY AFFORDABLE DEED RESTRICTIONS AND MAKE LOANS TO MIDDLE-INCOME HOUSEHOLDS TO PURCHASE HOMES SOLD IN BOULDER; AND SETTING FORTH THE BALLOT TITLE AND OTHER ELECTION PROCEDURES AND SETTING FORTH RELATED DETAILS.

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF BOULDER, COLORADO:

Section 1. A municipal coordinated election will be held in the City of Boulder, County of Boulder and State of Colorado, on Tuesday, November 5, 2019.

Section 3. At that election, there shall be submitted to the electors of the City of Boulder entitled by law to vote the question of the imposition of a middle-income housing program described in the ballot issue title in this ordinance.

Section 4. The official ballot shall contain the following ballot title, which shall also be the designation and submission clause for the issue:

BALLOT ISSUE ___

IMPOSITION OF A MIDDLE-INCOME HOUSING PROGRAM

SHALL CITY OF BOULDER DEBT BE INCREASED BY AN AMOUNT NOT TO EXCEED $10,000,000, WITH A MAXIMUM REPAYMENT COST OF NOT TO EXCEED $15,000,000, WITHOUT RAISING TAXES, TO PROVIDE FOR A HOUSING ASSISTANCE PROGRAM THAT WILL INCLUDE PERMANENTLY AFFORDABLE DEED RESTRICTIONS AND MAKE LOANS TO MIDDLE-INCOME HOUSEHOLDS TO PURCHASE HOMES SOLD IN BOULDER, SUCH DEBT TO BE SOLD AT SUCH TIME AND IN SUCH MANNER AND CONTAIN SUCH TERMS, NOT INCONSISTENT HEREWITH, AS THE CITY COUNCIL MAY DETERMINE AND TO PAY ALL NECESSARY OR INCIDENTAL COSTS RELATED THERETO BY THE ISSUANCE AND PAYMENT OF NOTES, BONDS, LINES OF CREDIT OR OTHER DEBT OBLIGATIONS AS PROVIDED BY THE CITY CHARTER, WHICH OBLIGATIONS SHALL BE PAYABLE FROM THE GENERAL FUND AND ANY OTHER LEGALLY AVAILABLE FUNDS OF THE CITY, ALL WITHOUT IN ANY OTHER WAY AFFECTING THE CITY'S OTHER TAXES, REVENUES OR EXPENDITURES UNDER THE CONSTITUTION AND LAWS OF THIS STATE?

YES/FOR ____ NO/AGAINST ____

Section 5. If this ballot issue is approved by the voters, the Charter shall be so amended, and the City Council may adopt amendments to the Boulder Revised Code to implement this change.

Section 6. The election shall be conducted under the provisions of the Colorado Constitution, the Charter and ordinances of the city, the Boulder Revised Code, 1981, and this ordinance.

Section 7. The officers of the city are authorized to take all action necessary or appropriate to effectuate the provisions of this ordinance and to contract with the county clerk to conduct the election for the city.

Section 8. If any section, paragraph, clause, or provision of this ordinance shall for any reason be held to be invalid or unenforceable, such decision shall not affect any of the remaining provisions of this ordinance.

Section 9. This ordinance is necessary to protect the public health, safety, and welfare of the residents of the city, and covers matters of local concern.

Section 10. The City Council deems it appropriate that this ordinance be published by title only and orders that copies of this ordinance be made available in the office of the city clerk for public inspection and acquisition.

INTRODUCED, READ ON FIRST READING, AND ORDERED PUBLISHED BY TITLE ONLY this 6th day of August 2019.

____
Suzanne Jones,
Mayor

Attest:

____
Lynnette Beck,
City Clerk

READ ON SECOND READING, PASSED AND ADOPTED this ____ day of _____________ 2019.

____
Suzanne Jones,
Mayor

Attest:

____
Lynnette Beck,
City Clerk